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 SC PUBLIC SERVICE
 COMMISSION

March 23, 2005

VIA ELECTRONIC AND HAND-DELIVERY

The Honorable Charles L.A. Terreni
 Executive Director
South Carolina Public Service Commission
 Post Office Drawer 11649
 Columbia, South Carolina 29211

RE: South Carolina Electric & Gas Company Annual Review of Base Rates for
 Fuel Costs
Docket No. 2005-2-E, Our File No. 925-10289

Dear Charles:

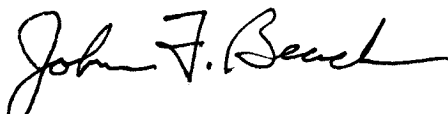
Enclosed is the original and twenty-five (25) copies of the **Testimony of J. Bertram Solomon** for filing on behalf of SMI Steel-South Carolina ("SMI") in the above-referenced docket. By copy of this letter, I am serving all parties of record and enclose my certificate of service to that effect.

Please acknowledge your receipt of this document by file-stamping the copy of this letter enclosed, and returning it via the person delivering same.

If you have any questions or need additional information, please do not hesitate to contact me.

With kind regards, I am

Very truly yours,



John F. Beach

JB/cr

cc: Damon Xenopoulos, Esquire
 all parties of record

Enclosures

**BEFORE THE
SOUTH CAROLINA
PUBLIC SERVICE COMMISSION**

In the Matter of:)

South Carolina Electric & Gas Company)
Annual Review of Base Rates for Fuel Costs)
_____)

Docket No. 2005-2-E

SC PUBLIC SERVICE
COMMISSION

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This is to certify that I have caused to be served this day, one (1) copy of the **Testimony of J. Bertram Solomon**, by hand-delivery and electronic mail service as follows unless otherwise noted:

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VIA ELECTRONIC AND FIRST-CLASS MAIL SERVICE

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Columbia SC 29211



Carol Roof

Columbia, South Carolina
March 23, 2005

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SC PUBLIC SERVICE
COMMISSION

STATE OF SOUTH CAROLINA
BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2005-2-E

IN THE MATTER OF
SOUTH CAROLINA ELECTRIC AND GAS COMPANY'S
ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

DIRECT TESTIMONY OF
J. BERTRAM SOLOMON
ON BEHALF OF
SMI STEEL - SOUTH CAROLINA

RETURN DATE: OK R. Duke
SERVICE: OK R. Duke

March 23, 2005

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**STATE OF SOUTH CAROLINA
BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

**IN THE MATTER OF SOUTH CAROLINA)
ELECTRIC AND GAS COMPANY'S)
ANNUAL REVIEW OF BASE RATES)
FOR FUEL COSTS)**

Docket No. 2005-2-E

**DIRECT TESTIMONY OF
J. BERTRAM SOLOMON
ON BEHALF OF
SMI STEEL – SOUTH CAROLINA**

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is J. Bertram Solomon. I am the Vice President/Treasurer of GDS
3 Associates, Inc. My business address is 1850 Parkway Place, Suite 800, Marietta,
4 GA 30067. I am a consultant specializing in public utility economics, energy
5 supply and rates.

6 **Q. PLEASE OUTLINE YOUR BACKGROUND AND RELEVANT**
7 **EXPERIENCE.**

8 A. I received the degree of Master of Business Administration from Georgia State
9 University in 1973. My area of concentration was Finance. I also received the
10 degree of Bachelor of Science in Industrial Management from the Georgia
11 Institute of Technology in 1972. As a cooperative student at Georgia Tech, I
12 gained approximately two years' work experience as an assistant engineer in an
13 industrial production setting. After graduation from Georgia Tech in 1972, I

1 worked approximately one and one-half years as a program manager for a
2 management consulting firm and for another one and one-half years as a project
3 analyst for a resort development firm. I was employed by Southern Engineering
4 Company from January 1975 until February 1986. During that time, I had
5 assignments in both the retail and wholesale rate departments of Southern
6 Engineering, primarily in the area of electric utility rates. In February 1986, I
7 participated in the founding of GDS Associates, Inc., a public utility engineering
8 and consulting firm providing integrated resource planning services, generation
9 support services, financial and statistical services, and regulatory services.

10 I have provided expert ratemaking testimony before the public utility
11 commissions of Alaska, Arkansas, Florida, Georgia, Indiana, Kansas, Kentucky,
12 Maine, Michigan, Minnesota, Nevada, New Jersey, North Carolina, Ohio,
13 Oklahoma, Pennsylvania, Rhode Island, Texas, and Virginia, as well as before the
14 Federal Energy Regulatory Commission ("FERC"). The areas of my expert
15 testimony have included: required rates of return including return on common
16 equity for investor-owned utilities and required margin levels for non-profit
17 utilities; reasonable utility capital structures, the reasonableness and prudence of
18 electric utility fuel costs, and proper methods of measuring working capital
19 requirements; the effects of alternative accounting methods on expenses, income
20 taxes, revenues, rate base and cost of capital, and their proper treatment for
21 ratemaking purposes; proper methods of cost allocation; rate design; integrated
22 resource planning; and economic feasibility analyses.

1 I have presented testimony in water, natural gas and electric cases; I have
2 prepared and filed comments before the FERC in several generic rulemaking
3 proceedings; and I have testified before the U.S. Senate Committee on Energy and
4 Natural Resources, Subcommittee on Energy Regulation, and before the Utilities
5 Committee of the Mississippi House of Representatives.

6 My experience is not limited to providing testimony. I have participated
7 in the preparation of retail and wholesale allocated cost of service studies, power
8 cost projections, and generating plant joint venture feasibility analyses. I also
9 have been responsible for competitive power supply solicitations, negotiations
10 and related litigation efforts. My resume is provided as Exhibit JBS-1.

11 **Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY COMMISSION?**

12 A. A list of the matters and cases in which I have provided testimony is provided in
13 Appendix A, which is attached to Exhibit JBS-1. In addition to providing
14 testimony in those cases, I have participated in the successful negotiation of
15 settlements in many other rate cases filed before public utility regulatory
16 commissions, thus eliminating the necessity of filing testimony in those
17 proceedings.

18 **Q. HAS ANY OF YOUR TESTIMONY BEFORE REGULATORY**
19 **COMMISSIONS INVOLVED ISSUES SIMILAR TO THOSE YOU**
20 **ADDRESS IN THIS CASE?**

21 A. Yes. Since about 1980, I have regularly reviewed projected and actual fuel costs
22 of utilities, their fuel procurement practices, generating plant operating results,
23 and proposed fuel recovery mechanisms, as well as related accounting practices

1 and I have advised clients with respect to such matters, as well as presenting
2 related testimony before both state and federal regulatory bodies.

3 **II. REPRESENTATION**

4 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

5 A. I am presenting testimony on behalf of SMI Steel – South Carolina (“SMI”).

6 **III. PURPOSE AND SUMMARY**

7 **Q. WHAT WAS YOUR ASSIGNMENT IN THIS PROCEEDING?**

8 A. My assignment was to review the filings of South Carolina Electric and Gas
9 Company (“SCE&G” or “Company”) witnesses related to its proposed base fuel
10 rate. After review of these filings I was to develop Requests for Information as
11 needed to better understand the reasons for the large increase proposed by the
12 Company and to identify any major areas in which the Company’s filings were
13 not just and reasonable, were in error, or failed to conform to generally accepted
14 ratemaking standards and conventions. I was also asked to prepare written
15 testimony describing any fuel cost issues I identified.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to present the findings and recommendations I
18 have reached as a result of my investigation and analyses.

19 **IV. FUEL CHARGE INCREASES**

20 **Q. WHAT INCREASE IS THE COMPANY PROPOSING TO MAKE**
21 **EFFECTIVE IN MAY 2005?**

1 A. As presented by Company witness John R. Hendrix, SCE&G proposes a base fuel
2 rate of 2.342 ¢/kWh, which includes 0.172 ¢/kWh to recover its forecast under
3 collection balance. Thus, the proposed fuel component would implement a 33%
4 increase over the current base fuel rate of 1.764 ¢/kWh. This is a huge proposed
5 increase for the projected period.

6 **Q. HAS THE COMPANY NOTED THE LARGE PERCENT INCREASE**
7 **THAT IS BEING PROPOSED AND EXPLAINED THE REASONS FOR**
8 **SUCH A LARGE INCREASE?**

9 A. No. Nowhere in its filing does the Company point out the relative significance of
10 the increase to ratepayers much less provide any detailed analysis and explanation
11 of the major factors that explain the bases for the huge requested increase.

12 **Q. HAS THE COMPANY EXPLAINED WHY SUCH A LARGE PROPOSED**
13 **INCREASE SHOULD BE IMPLEMENTED SO SUDDENLY WITH NO**
14 **TYPE OF PHASING TO SOFTEN THE IMPACT ON CONSUMERS?**

15 A. No. The Company's witnesses don't describe any consideration the Company
16 might have made of ways to mitigate the impact on ratepayers.

17 **Q. HOW HAVE THE COMPANY'S ANNUAL BASE FUEL FACTORS**
18 **CHANGED SINCE 2000 AND HOW DO THE COMPANY'S RATES**
19 **COMPARE TO THE ANNUAL BASE FUEL FACTORS OF**
20 **CP&L/PROGRESS ENERGY AND DUKE ENERGY?**

- 1 A. The Company's Base Fuel Rate and the Base Fuel Rates of CP&L/Progress
2 Energy and Duke Energy from the year 2000 are shown in Table 1 below:

**South Carolina Public Service Commission
Annual Base Fuel Factor Summary**

(rates reflected are ¢/kWh)

SCE&G						
	*2005	2004**	2003	2002	2001	2000
Base Fuel Rate	2.342	1.764	1.678	1.722	1.579	1.330
Percent change	33%	9%**	-3%	9%	19%	
Cumulative % change	76%	33%	26%	29%	19%	

CP&L/Progress Energy						
	*2005	2004	2003	2002	2001	2000
Base Fuel Rate	-	1.471	1.471	1.471	1.517	1.265
Percent change	-	0%	0%	-3%	20%	
Cumulative % change		16%	16%	16%	20%	

Duke Energy						
	*2005	2004	2003	2002	2001	2000
Base Fuel Rate	-	1.150	1.150	0.950	0.950	0.950
Percent change	-	0%	21%	0%	0%	
Cumulative % change		21%	21%	0%	0%	

*** Proposed 2005 Rate**

**** Per Order 2005-2, factor of 1.821 was amended to 1.764, because certain fixed pipeline capacity charges are now being recovered through base rates rather than the fuel adjustment clause.**

- 3 **Source: Public Service Commission of South Carolina Orders**
- 4 A review of this table reveals that the Company's annual Base Fuel Factor has
- 5 consistently been the highest of the investor owned utilities serving the state of
- 6 South Carolina. In addition, the Company's annual Base Fuel Factor has been
- 7 increasing at a faster rate than the other utilities. In 2000, the Company's Base
- 8 Fuel Factor was 5% higher than that of CP&L and 40% higher than Duke's Base
- 9 Fuel Factor. During the next four years, the Company's Base Fuel Factor had
- 10 increased by 33% compared to an increase of 16% for CP&L and 21% for Duke.

1 By 2004, the Company's Base Fuel Factor was 20% higher than CP&L and 53%
2 higher than Duke's Base Fuel Factor. The increase in Base Fuel Factor that will
3 be requested by CP&L and Duke in 2005 is not known at this time. However,
4 given the relatively constant Fuel Factors for these utilities during the past four
5 years, it is highly unlikely that the requested Fuel Factors for Duke and CP&L
6 will be anywhere near the very large increase requested by the Company. I
7 believe that this multi-year comparison strongly suggests that there are significant
8 concerns regarding the overall level of SCE&G's Base Fuel Factor.

9 **Q. HAVE YOU DETERMINED TO YOUR SATISFACTION THE REASONS**
10 **FOR THIS DRAMATIC INCREASE IN PROJECTED FUEL COSTS AND**
11 **THE BASE FUEL FACTOR REQUESTED BY THE COMPANY?**

12 A. No, I have not. I only received responses to my first set of requests for
13 information late on Friday, March 19. This was only three business days before
14 the filing deadline for this testimony. I have not had adequate time to fully review
15 and analyze these responses nor have I had the opportunity to ask follow-up
16 questions to clarify the Company's responses or to delve further into the support
17 for its projections and its fuel procurement practices. However, I have concluded
18 that the Company's testimony and responses to my Requests for Information do
19 not adequately explain the bases for the dramatic increase in forecast fuel costs.

20 **Q. PLEASE EXPLAIN FURTHER.**

21 A. RFI SMI-1-5 asked the Company to explain what accounts for the large cost
22 differences between the actual Total Cost of Fossil Fuel Burned during the
23 historical review period and the Total Cost of Fossil Fuel Burned in the forecast

1 period. For example, the Total Cost of Fossil Fuel Burned in July 2004 was
2 \$39,824,647¹ while the forecast for Total Cost of Fossil Fuel Burned in July 2005
3 is \$52,584,000², an increase of 32%. The Company explained this increase
4 stating that the forecast cost is based on a number of assumptions including
5 normal weather which affects the amount of coal burned and a projected increase
6 in the cost of coal during the forecast period.

7 **Q. DOES THE COMPANY'S RESPONSE ADEQUATELY EXPLAIN THE**
8 **INCREASE IN TOTAL COST OF FOSSIL FUEL BURNED?**

9 A. No it does not. For example, although the Company's response to SMI-1-5
10 mentions weather as a factor, the Company's forecast of Total System Sales
11 Excluding Intersystem Sales is only 1% higher for July 2005 than it actually was
12 in July 2004³. As far as the increase being driven by increased coal costs is
13 concerned, Exhibit JBS-2 shows the actual and forecast coal costs during the
14 review period. This comparison shows that the forecast coal cost for July 2005
15 are 18.1% higher than the actual coal cost for July 2004. An 18.1% increase in
16 coal cost combined with a 1% increase in forecast Total System Sales do not
17 result in a 32% increase in Total Cost of Fossil Fuel Burned.

18 **Q. HAS THE COMPANY IDENTIFIED THE REASON(S) FOR THE**
19 **INCREASE IN COAL COSTS?**

20 A. No it has not. The Company generally addressed the question of increasing coal
21 costs in response to RFI SMI-1-2. However, it has not provided detailed,

¹ Direct Testimony of John R. Hendrix, Exhibit JRH-1.

² Direct Testimony of John R. Hendrix, Exhibit JRH-2.

³ Direct Testimony of John R. Hendrix, Exhibits JRH-1 and JRH-2.

1 quantified justification for the increases or for the failure of its process of
2 procuring coal through long term contracts to mitigate the increases.

3 **Q. HAVE YOU BEEN ABLE TO IDENTIFY THE REASON(S) FOR THE**
4 **INCREASE IN COAL COSTS?**

5 A. No. I have not. There is clearly a trend toward increasing coal costs during the
6 review period. However, the Company states that approximately 85% of its coal
7 is procured under long term contracts with 15% being procured on the spot
8 market.⁴ A properly managed portfolio of long term coal contracts should
9 mitigate the impact of abrupt increases in the cost of coal. It appears from the
10 relatively stable Base Fuel Rates for Duke and CP&L shown in Table I above that
11 these companies have been able to manage and mitigate the impact of coal cost
12 increases much better than SCE&G.

13 **Q. HAVE YOU BEEN ABLE TO CONDUCT ANY FURTHER ANALYSES**
14 **THAT WOULD ALLOW YOU TO MAKE ANY FURTHER JUDGMENTS**
15 **AS TO WHY THE RATE OF INCREASE IN SCE&G'S FUEL COSTS**
16 **HAS BEEN SO MUCH HIGHER THAN THAT OF DUKE AND CP&L?**

17 A. Yes. Using the 2003 FERC Form No. 1 for each of the three companies, I have
18 examined their reported sources and costs of generation and purchases. The
19 results of my comparison are shown in my Exhibit JBS-3. These analyses
20 confirm that SCE&G's average fuel and purchased energy costs per MWh of sales
21 are approximately 65% higher than those of Duke and approximately 14% higher
22 than those experienced by CP&L. My analyses also show that SCE&G relies

⁴ Direct Testimony of Gerhard Haimberger, Page 5, lines 11 – 17.

1 much more heavily on purchase power as a source of energy than do Duke and
2 CP&L. Approximately 24% of the Company's energy requirement comes from
3 purchases whereas Duke and CP&L rely on purchases for only approximately 2%
4 and 7% of their energy requirements, respectively. The cost of purchased energy
5 is relatively high for each utility, but because the Company relies so much more
6 heavily on such purchases, they drive its average unit cost of fuel and purchased
7 energy up substantially higher than that of Duke and CP&L.

8 **Q. HOW MUCH LOWER WOULD THE COMPANY'S 2003 FUEL AND**
9 **PURCHASED ENERGY COSTS FOR SALES TO ULTIMATE**
10 **CONSUMERS HAVE BEEN IF ITS COST PER UNIT OF SALES WERE**
11 **THE SAME AS THAT OF DUKE AND CP&L?**

12 A. The Company's 2003 fuel and purchased energy costs for sales to ultimate
13 consumers would have been approximately \$154.4 million lower if its cost per
14 unit of sales were equal to that of Duke and approximately \$47.2 million lower if
15 it had kept its unit costs down to that of CP&L's level.

16 **Q. DO THESE MAJOR DIFFERENCES IN COSTS APPEAR REASONABLE**
17 **ON THEIR FACE?**

18 A. No. They do not. It is surprising that such major cost differences have arisen for
19 utilities operating in such close proximity.

20 **Q. WOULD YOU CHARACTERIZE THE COMPANY'S ACTIONS THAT**
21 **HAVE LED TO SUCH SIGNIFICANT DIFFERENCES AS IMPRUDENT?**

22 A. I am not prepared to reach a final conclusion as to prudence of the Company's
23 fuel costs without reviewing additional information the Company can provide.

1 However, it is conceivable that, to the extent that the Company's actions were
2 different than the other major utilities in the region, and that led to such large fuel
3 charge differences, such actions might be considered to be imprudent (or at least
4 unreasonable) on their face.

5 **Q. CAN THE COMMISSION REQUIRE A COST OF SERVICE AND RATE**
6 **ADJUSTMENT FOR UNREASONABLE COST ITEMS WITHOUT**
7 **FINDING THEM TO HAVE BEEN IMPRUDENTLY INCURRED?**

8 A. Yes. In fact, I am informed by counsel that if the Commission finds a cost item
9 to be unreasonably incurred, it is actually required to disallow recovery on that
10 item. South Carolina Code Ann. Section 58-27-865(F) requires the Commission
11 to "disallow recovery of any fuel costs that it finds without just cause to be the
12 result of failure of the utility to make every reasonable effort to minimize fuel
13 costs or any decision of the utility resulting in unreasonable fuel costs ..." In
14 *Hamm v. South Carolina Public Service Commission*, 291 S.C. 178, 352 S.E.2d
15 476, 478 (1987) ("*Hamm*"), the South Carolina Supreme Court held this to mean
16 that the Commission is required "to evaluate the conduct of the utility in making
17 the decisions which resulted in the higher fuel costs. If the utility has acted
18 unreasonably, and higher fuel costs are incurred as a result, the utility should not
19 be permitted to pass along the higher fuel costs to its customers." "The rule does
20 not require the utility to show that its conduct was free from human error; rather,
21 it must show it took reasonable steps to safeguard against error." [citations
22 omitted].

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V. CONCLUSION

Q. WHAT ARE YOUR CONCLUSIONS AND RECOMMENDATIONS FOR THE COMMISSION?

A. SCE&G has not demonstrated that the requested huge increase in the Base Fuel Factor is reasonable, justified or prudent. SCE&G's fuel costs are significantly higher than the other utilities in the region and its proposed 33% increase in its fuel factor is startling. If this requested increase is granted, the differential between SCE&G and the other regional utilities will be even greater than at present. While I have not been able to satisfactorily determine the reasons for this large differential given the abbreviated schedule for this proceeding, and the inability to fully conduct the necessary discovery, I believe that the issues identified in my testimony raise flags as to the reasonableness and prudence of the Company's management of its fuel procurement process. I recommend that the Commission conduct the necessary investigation to determine the reason for the large difference between the Company's fuel costs and the costs for other regional utilities. This investigation should include a review of the Company's fuel commodity procurement policies, strategies and implementation. The Company should be allowed to pass through to ratepayers only those costs that have been demonstrated to be reasonable and prudent. Until such time, the Commission should allow the Company to continue to collect its fuel costs at the current 1.764 ¢/kWh level plus 0.093 ¢/kWh ($\$20,532,261 \div 22,085 \text{ GWH}$) for recovery of the \$20,532,261 February 2004 actual under recovery balance the Commission acknowledged in Docket No. 2004-2-E, all subject to refund. The Company has

1 not justified its higher costs or a higher fuel factor. Once a Base Fuel Factor that
2 is reasonable, justified and prudent has been determined, the Commission should
3 require the Company to amortize the increase (if any) over a period (such as 24 or
4 36 months) that will reduce the sudden impact of this increase on ratepayers.

5 **Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?**

6 **A.** Yes it does.

J. Bertram Solomon.
Vice President and Treasurer

EDUCATION: Master of Business Administration - Finance, Georgia State University, 1973
Bachelor of Industrial Management, Georgia Institute of Technology, 1972

EXPERIENCE:

Mr. Solomon has extensive experience in electric utility ratemaking and power supply contracting. This broad experience includes projected future power cost and power supply analysis; allocated cost-of-service and rate design analysis; revenue requirements and rate of return analysis; avoided cost analysis, presentation of expert testimony before the Federal Energy Regulatory Commission in wholesale rate cases and before state utility commissions in wholesale and retail rate cases, least cost integrated resource planning and certificate of convenience proceedings; negotiation of wholesale and retail full requirements, partial requirements, economic development, interruptible, and transmission rates and contracts; preparation and presentation of depreciation studies; analysis of management audits of electric utilities; preparation and evaluation of merger and acquisition analyses; participation in bankruptcy proceedings; and valuation of electric utility distribution systems.

Mr. Solomon has also been heavily involved in assisting clients in the electric industry restructuring process. He has participated in evaluating, negotiating and testifying on independent system operator/regional transmission organization ("ISO/RTO") formation and implementation and other industry restructuring issues. He has experience with the PJM ISO, New York ISO, Midwest ISO, Alliance RTO formation and has been actively involved in the Cincinnati RTO collaborative process since its initiation by FERC Order No. 2000. In addition, Mr. Solomon has testified in industry restructuring proceedings in Virginia, Arkansas, Texas and Ohio.

Mr. Solomon was employed by Southern Engineering Company from January 1975 until February 1986. While at Southern Engineering, Mr. Solomon provided electric utility ratemaking services to rural electric cooperatives, municipally-owned utilities, large industrial firms, and governmental agencies advancing from rate analyst to Assistant Vice President, Economic and Regulatory Services. In February 1986, Mr. Solomon participated in the founding of GDS Associates, Inc. where he continues to provide regulatory consulting services, expert testimony on electric and gas utility pricing and service matters, and power supply contracting services.

Mr. Solomon has presented expert testimony before numerous regulatory bodies in the following areas: the cost of capital and required rate of return for both privately-owned and publicly-owned utilities; accounting as applied in ratemaking and the effects of appropriate alternative accounting methods on expenses, income taxes, revenues, rate base and cost of capital; proper methods of cost allocation; proper methods of measuring working capital requirements; the proper development of test year revenue requirements; rate design; least cost integrated resource planning; industry restructuring issues; stranded cost analysis; and the development of competitive electricity markets through properly designed ISOs, Transcos and RTOs.

Mr. Solomon has testified extensively before the Federal Energy Regulatory Commission (formerly Federal Power Commission) in proceedings involving full and partial requirements wholesale rates and terms and conditions of service, mergers and acquisitions, market-based rate applications, regional restructuring and implementation of an ISO and energy exchange, transmission rates and service terms, coordination service rates, service reliability, fuel adjustment provisions, customer filed complaints and special accounting dockets. Mr. Solomon has also testified before the Alaska Regulatory Commission, the Arkansas Public Service Commission, the Florida Public Service Commission, the Georgia Public Service Commission, the Public Service Commission of Indiana, the Kansas State Corporation Commission, the Kentucky Public Service Commission, the Maine Public Utilities Commission, the Michigan Public Service Commission, the Public Utilities

J. Bertram Solomon.
Vice President and Treasurer

Commission of Minnesota, the Nevada Public Utilities Commission, the New Jersey Board of Public Utilities, the North Carolina Utilities Commission, the Public Utilities Commission of Ohio, the Oklahoma State Corporation Commission, the Pennsylvania Public Utility Commission, the Public Utilities Commission of the State of Rhode Island, the Public Utility Commission of Texas, and the Virginia State Corporation Commission in matters similar to those before the FERC plus the appropriate costing and design of interruptible, economic development and special contract rates and prudent integrated resource planning practices. In addition, Mr. Solomon has participated in the successful negotiation of settlements in many cases thereby eliminating the requirement for the filing of testimony.

In addition to filing expert testimony, Mr. Solomon has participated in the preparation of comments for submission to the FERC and state regulatory commissions in generic rulemaking proceedings on the following subjects: income tax normalization; changes to FERC Form 1; rate of return on common equity; CWIP in rate base; interest rate on refunds; treatment of captive fuel operations; cash working capital; changes in filing requirements; price squeeze; and pricing of electricity sales.

Additionally, Mr. Solomon has testified before the U.S. Senate Committee on Energy and Natural Resources, Subcommittee on Energy Regulation concerning the "Construction Work in Progress Policy Act of 1983" (S.817 and S.1069) and before the Utilities Committee of the Mississippi House of Representatives regarding valuation of electric distribution systems.

**J. BERTRAM SOLOMON
PRIOR RATEMAKING TESTIMONY**

FEDERAL ENERGY REGULATORY COMMISSION

Allegheny Electric Cooperative, Inc., Docket No. EL00-88-000

Allegheny Power, Docket No. ER02-136-004

Alliance Companies, et al., Docket Nos. ER99-3144-000 and EC99-80-000

American Electric Power Service Corporation, Docket No. ER93-540-000

Appalachian Power Company, Docket Nos. ER87-105-002, ER87-106-002, EL89-53-000, ER90-132-000, ER90-133-000, & ER92-323-000

Arizona Public Service Company, Docket Nos. ER81-179 & ER82-481

Blue Ridge Power Agency, et al., Docket No. EL89-53-000

Boston Edison Company, Docket Nos. ER93-150-000 & EL93-10-000

North Carolina Electric Membership Corporation vs. Carolina Power & Light Company, Docket No. EL91-28-000

Carolina Power & Light Company, Docket Nos. ER76-495, ER77-485 & ER80-344

Central Hudson Gas & Electric Corp., et al., Docket Nos. ER97-1523-011, et al.

Central Louisiana Electric Company, Docket No. ER82-704

Central Montana Power Co., Docket No. EL99-24-000

Delmarva Power and Light Company, Docket Nos. ER93-96-000 & EL93-11-000

Duke Power Company, Docket Nos. FA83-4-001 & ER89-106-000

East Texas Electric Cooperative, Inc., Docket No. ER94-891

Entergy Services, Inc., Docket No. ER95-112-000, et al.

Florida Power & Light Company, Docket No. ER86-383-001; ER93-465-000, et al.; ER99-2770-000

Georgia Power Company, Docket Nos. E-9091, E-9521, ER76-587, ER78-166 & ER79-88, ER85-659 & ER85-660

Golden Spread Electric Cooperative, Inc., et al., Docket No. EL05-19-000

Gulf States Utilities Company, Docket Nos. ER84-568-000 & ER85-538-001

Indiana & Michigan Electric Company, Docket Nos. ER78-379, et al.

Kansas Gas & Electric Company, Docket Nos. ER77-578 & ER82-412

Kentucky Utilities Company, Docket No. ER82-673

Louisiana Power & Light Company, Docket Nos. ER77-533, ER81-457 & EL81-13 & FA86-063-001

Maine Yankee Atomic Power Company, Docket No. EL93-22-000

Midwest Independent Transmission System Operator, Inc., Docket No. ER02-485-000

Montana Power Company, Docket No. ER98-2382

Nantahala Power & Light Company, Docket Nos. ER76-828 & EL78-18

New York State Electric & Gas Corporation, Docket No. ER82-803

Niagara Mohawk Power Corporation, Docket No. ER86-354-001

North Carolina Electric Membership Corporation v. Virginia Electric & Power Company, Docket No. EL90-26-000

Oglethorpe Power Corporation, Docket No. EL85-40

Ohio Edison Company, et al., Docket Nos. ER97-412-000 and ER97-413-000

Pennsylvania Power & Light, Inc., Docket No. ER00-1014-000

PJM Interconnection, LLC, Docket No. ER01-1201-000

Portland Natural Gas Transmission System, Docket No. RP02-13-000

Potomac Edison Company, Docket No. ER95-39-000

PSI Energy, Inc., Docket No. ER00-188-000

Public Service Company of Indiana, Docket No. ER76-149

Public Service Electric & Gas Company, et al., Docket Nos. EC99-79-000 and ER99-3151-000

Southern Company Services, Inc., Docket Nos. ER98-1096-000, et al.

Virginia Electric & Power Company, Docket No. ER84-355-000

Western Resources, Inc., Docket Nos. ER95-1515 and ER96-459-000

ALASKA REGULATORY COMMISSION

In the Matter of the Tariff Revision, Designated as TA226-8, filed by Chugach Electric Association, Inc. for a Rate Increase and Rate Design, Docket No. U-01-108

ARKANSAS PUBLIC SERVICE COMMISSION

Arkansas Electric Cooperative Corporation, Docket Nos. 93-132-U & 93-134-P

In the Matter of the Application of Entergy Arkansas, Inc. for Approval of Changes in Rates for Retail Electric Service, Docket No. 96-360-U

In the Matter of the Motion of the General Staff of the Arkansas Public Service Commission to Establish a Docket to Determine the Reasonableness of the Rates of Southwestern Electric Power Company, Docket No. 98-339-U

In the Matter of the Unbundling of the Rates of Arkansas Electric Cooperative Corporation, Docket No. 99-251-U

FLORIDA PUBLIC SERVICE COMMISSION

Tampa Electric Company, Docket No. 850050-EI

GEORGIA PUBLIC SERVICE COMMISSION

Georgia Power Company, Docket Nos. 3840-U, 4133-U and 4136-U

PUBLIC SERVICE COMMISSION OF INDIANA

(Now Indiana Utility Regulatory Commission)

Public Service Company of Indiana, Cause No. 37414

STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

Kansas Electric Power Cooperative, Inc., Docket No. 01-KEPE-1106-RTS

KENTUCKY PUBLIC SERVICE COMMISSION

Big Rivers Electric Corporation, Case Nos. 6499, 9006 & 9163

Fern Lake Company, Case Nos. 6971, 7292, 7982 & 8276

Jackson Purchase Electric Cooperative Corporation, Case No. 6992

MAINE PUBLIC UTILITIES COMMISSION

Maine Public Service Company, Docket Nos. 84-80 & 84-113

MICHIGAN PUBLIC SERVICE COMMISSION

Detroit Edison Company, Case No. U-7660

PUBLIC UTILITIES COMMISSION OF MINNESOTA

Northern States Power Company, E-002/GR-91-1 & OAH 7-2500-5291-2

NEVADA PUBLIC UTILITIES COMMISSION

Sierra Pacific Power Company, PUCN 01-11030

NEW JERSEY BOARD OF PUBLIC UTILITIES

Jersey Central Power & Light Company, ER 89110912J, EM 91010067 & OAL 1804-91

NORTH CAROLINA UTILITIES COMMISSION

Duke Power Company, Docket No. E-7, Sub 487

Nantahala Power & Light Company, Docket Nos. E-13 Sub 29 Remand, E-13 Sub 35, & E-13 Sub 44

North Carolina Electric Membership Corporation, Docket No. E-100 Sub 58

North Carolina Natural Gas Corporation, Docket Nos. G-21, SUB 306 and G-21, SUB 307

Piedmont Natural Gas Company, Inc., Docket Nos. G-9, SUB 300, Remand; G-9, SUB 306, Remand; G-9, SUB 308, Remand

In The Matter Of Dominion North Carolina Power Investigation Of Existing Rates And Charges, Docket No. E-22, SUB 412

PUBLIC UTILITY COMMISSION OF OHIO

FirstEnergy Corporation, et al., Case Nos. 99-1212-EL-ETP, 99-1213-EL-ATA, and 99-1214-EL-AAM

In The Matter Of The Application Of The Cincinnati Gas & Electric Company For Approval Of Its Transition Plan And For Authorization To Collect Transition Revenues, et al., Case Nos. 99-1658-EL-ETP, 99-1659-EL-ATA, 99-1660-EL-ATA, 99-1661-EL-AAM, 99-1662-EL-AAM, and 99-1663-EL-UNC

Columbus Southern Power Co., et al., Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP

In The Matter Of The Application Of The Dayton Power & Light Company For Approval Of Their Transition Plan Pursuant To Section 4928.31, Revised Code And For Opportunity To Receive Transition Revenues As Authorized Under Sections 4928.31 To 4928.40, Revised Code; Case Nos. 99-1687-EL-ETP and 99-1688-EL-AAM

In the Matter of the Continuation of the Rate Freeze and Extension of the Market Development Period for the Monongahela Power Company, Case No. 04-880-EL-UNC

CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

Application Of Ernest G. Johnson, Director Of The Public Utility Division, Oklahoma Corporation Commission To Review The Rates, Charges, Services, And Service Terms Of Oklahoma Gas And Electric Company And All Affiliated Companies And Any Affiliate Or Nonaffiliate Transaction Relevant To Such Inquiry, Cause No. PUD 200100455

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Electric Company, Docket Nos. R-842771, R-860413, M-870172C003 & R-880979

**PUBLIC UTILITIES COMMISSION OF THE STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS**

Narragansett Electric Company, Docket No. 2019

PUBLIC UTILITY COMMISSION OF TEXAS

Gulf States Utilities Company, Docket Nos. 4510, 5108, 5560 & 5820

Lower Colorado River Authority, Docket Nos. 8032, 8400 & 9427

Sam Rayburn G&T, Inc., Docket Nos. 5657, 6440, 6797, 7991 & 8595

Southwestern Electric Service Company, Docket Nos. 5044 & 6610

Texas Electric Service Company, et. al., Docket No. 4224

Texas Electric Service Company, Docket No. 5200

Texas Power & Light Company, Docket Nos. 1517, 1517 (On Remand), 3006, 3780 & 4321

Texas Utilities Electric Company, Docket No. 5640, 11735, 15195

Tex-La Electric Cooperative of Texas, Inc., Docket No. 7279

Tex-La Electric Cooperative of Texas, Inc., Sam Rayburn G&T Electric Cooperative, Inc., and Northeast Texas Electric Cooperative, Inc., Docket No. 13100

Application of TXU Electric Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs, Docket No. 21527

Application of TXU Electric Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344, PUC Docket No. 22350

Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344, PUC Docket No. 22344

Application of Central Power & Light Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA § 39.201 and PUC Substantive Rule § 25.344, PUC Docket No. 22352

Application of West Texas Utilities Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA § 39.201 and PUC Substantive Rule § 25.344, PUC Docket No. 22354

Application Of LCRA Transmission Services Corporation To Change Rates, SOAH Docket No. 473-04-1662, PUC Docket No. 28906

VIRGINIA STATE CORPORATION COMMISSION

Appalachian Power Company, Case No. PUE900026

Old Dominion Power Company, Case Nos. 20106, PUE800028, PUE810074,
PUE830035 & PUE830069

Application of Virginia Electric and Power Company for Approval of Alternative
Regulatory Plan, Case No. PUE960296

SOUTH CAROLINA ELECTRIC & GAS COMPANY COAL COSTS (\$/MMBTU)

YEAR	MONTH												Average
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
2004			1.90	2.05	2.01	2.12	1.96	2.13	2.23	2.10	2.22	2.09	2.08
2005	2.4821	2.4669	2.3173	2.326	2.3173	2.306	2.3154	2.3137	2.316	2.306	2.322	2.3173	2.3422
% change from 2004 to 2005			21.96%	13.46%	15.29%	8.78%	18.13%	8.62%	3.87%	9.79%	4.60%	10.88%	12.55%
2006	2.276	2.276	2.2062	2.2537									2.2530
% change from 2005 to 2006	-8.30%	-7.74%	-4.79%	-3.11%									-3.81%

Data Source: Response to ORS RFI 1-1

**Production Cost Comparison For 2003
South Carolina Utilities**

South Carolina Electric & Gas		Non-Fuel Production		Fuel and Purchased Energy		% of Tot
Generation and Purchases	MWH	O&M	Fuel	Total	Cost Per MWH	MWH Sources
Steam	12,264,161	\$66,998,552	\$200,564,159	\$267,562,711	\$16.35	52.0%
Nuclear	4,901,988	\$61,678,863	\$26,173,331	\$87,852,194	\$5.34	20.8%
Hydro (Net)	192,079	\$5,747,357	---	\$5,747,357	---	0.8%
Other	<u>661,224</u>	<u>\$5,913,594</u>	<u>\$41,397,820</u>	<u>\$47,311,414</u>	\$62.61	2.8%
Total Generation	18,019,452	\$140,338,366	\$268,135,310	\$408,473,676	\$14.88	76.3%
Purchases	<u>MWH</u> <u>5,587,728</u>	<u>Demand</u> <u>\$4,042,410</u>	<u>Energy</u> <u>\$159,434,261</u>	<u>Other</u> <u>\$512,123</u>	<u>Total</u> <u>\$163,988,794</u>	\$28.53 23.7%
Total Sources	23,607,180	\$144,380,776	\$427,569,571	\$512,123	\$572,462,470	\$18.11 100.0%
Energy Sales	MWH	Company Use				
Ultimate Customers Sales	20,668,054	and Losses				
Requirement Sales Resale	156,969	(MWH)				
Non-Requirement Sales Resale	<u>1,705,720</u>					
Total Sales	22,530,743	1,076,437		Cost Per Unit of Sales: \$18.98		

<u>Duke Energy</u>		Non-Fuel Production		Fuel and Purchased Energy		% of Tot
Generation and Purchases	MWH	O&M	Fuel	Total	Cost Per MWH	MWH Sources
Steam	43,695,743	\$165,924,327	\$714,063,932	\$879,988,259	\$16.34	49.8%
Nuclear	40,256,018	\$400,787,812	\$169,350,686	\$570,138,498	\$4.21	45.9%
Hydro (Net)	2,101,313	\$25,828,915	---	\$25,828,915		2.4%
Other	<u>105,772</u>	<u>\$5,907,636</u>	<u>\$11,179,840</u>	<u>\$17,087,476</u>	\$105.70	0.1%
Total Generation	86,158,846	\$598,448,690	\$894,594,458	\$1,493,043,148	\$10.38	98.3%
	MWH	Demand	Energy	Other	Total	
Purchases	<u>1,512,915</u>	<u>\$38,218,976</u>	<u>\$58,551,652</u>	<u>\$10,718,674</u>	<u>\$107,489,302</u>	\$38.70
						1.7%
Total Sources	87,671,761	\$636,667,666	\$953,146,110	\$10,718,674	\$1,600,532,450	\$10.87
						100.0%
Energy Sales	MWH	Company Use and Losses				
Ultimate Customers Sales	73,763,185					
Requirement Sales Resale	2,354,612					
Non-Requirement Sales Resale	<u>6,710,632</u>	4,915,307		Cost Per Unit of Sales:		
Total Sales	82,828,429			\$11.51		
				SCE&G Unit Costs Are Higher By:		
				64.9%		
				Lower Cost to Consumers if SCE&G Unit Energy Costs Were Same as Duke's:		
				\$154,383,896		

<u>Progress Carolina (CP&L)</u>		Non-Fuel Production				Fuel & Pur Engy	% of Tot
Generation and Purchases	MWH	O&M	Fuel		Total	Cost Per MWH	MWH Sources
Steam	28,521,951	\$101,967,493	\$582,621,396		\$684,588,889	\$20.43	47.7%
Nuclear	24,536,538	\$215,228,460	\$111,764,548		\$326,993,008	\$4.56	41.1%
Hydro (Net)	955,387	\$5,102,207	---		\$5,102,207	---	1.6%
Other	<u>1,343,958</u>	<u>\$21,256,497</u>	<u>\$109,338,217</u>		<u>\$130,594,714</u>	\$81.36	2.2%
Total Generation	55,357,834	\$343,554,657	\$803,724,161		\$1,147,278,818	\$14.52	92.6%
	<u>MWH</u>	<u>Demand</u>	<u>Energy</u>	<u>Other</u>	<u>Total</u>		
Purchases	<u>4,395,211</u>	<u>\$136,756,333</u>	<u>\$155,610,550</u>	<u>\$4,124,159</u>	<u>\$296,491,042</u>	\$35.40	7.4%
Total Sources	59,753,045	\$480,310,990	\$959,334,711	\$4,124,159	\$1,443,769,860	\$16.05	100.0%
Energy Sales	MWH	Company Use and Losses					
Ultimate Customers Sales	41,927,371						
Requirement Sales Resale	10,833,293						
Non-Requirement Sales Resale	<u>4,709,397</u>	2,354,989		Cost Per Unit of Sales:			
Total Sales	57,470,061			\$16.69			
				SCE&G Unit Costs Are Higher By:			
				13.7%			
				Lower Cost to Consumers if SCE&G Unit Energy Costs Were Same as CP&L's:			
				\$47,213.875			